

segmental reviews: telecommunications distribution

Telecommunications Distribution



The Prepaid Company

Crown Cellular

Ventury

Matragon

Kwikpay SA

Virtual Voucher

The **Telecommunications Distribution** segment houses all group companies involved in the distribution of prepaid secure electronic tokens of value (e-tokens) to South Africa's wholesale and retail consumer markets.

Each subsidiary is focused on serving a specific market segment and develops and deploys tailor-made distribution solutions that allow end-users to access a broad range of e-tokens via their chosen delivery device (touch point). Each channel uses the latest technology standards and well-defined protocols to make solutions-deployment easier, more dependable and scalable. The segments distribution devices currently include:

- Point-of-sale (POS) terminals;
- Integrated till systems (ITS);
- General Packet Radio Service (GPRS) and 3G;
- Bulk printing solutions;
- Vending machines;
- Short Message Service (SMS) and Unstructured Supplementary Service Data (USSD);
- Kiosks (manned and self service);
- Internet;
- Mobile applications; and
- Touch screens.





Growing the relative contribution of non-airtime related products remains a key segmental priority



The group continues to forward integrate into its airtime vending footprint.



Case study

The group via the Telecommunications Distribution segment is a leading provider of secure e-tokens to wholesale and retail consumer markets in South Africa.

The group's medium-term goal is to increase its ownership of its footprint – including integrated gateways, touch screens, self service terminals and vending machines – in order to maximise the margin it earns on the distribution of its broad array of e-tokens.

To achieve its goal the group has already begun to rollout proprietary devices within selected sectors of the South African consumer market and expects to have deployed at least 5 000 by the end of 2009.

Self-service vending machines

Comm Express Services (CES), a wholly owned subsidiary, distributes virtual and physical e-tokens (including starter packs) directly to consumers within local retail association and independent retailer footprints. **CES**, through its manufacturing division manufactures, distributes and maintains the group's proprietary vending machine infrastructure.

By the end of 2009, **CES**, in conjunction with Activi Technology Services, plans to

have rolled out in excess of 750 self-service vending machines within these environments to further enhance its ability to distribute e-tokens in line with the group's overall expansion targets and **CES'** self-service vending machines have been developed to cater for South Africa's unique requirements.

Although they vend physical vouchers, they top-up virtually, never missing a sale. In addition, due to their robust design and quality manufacture, they require very little on-site maintenance.

Key to **CES'** success remains its ability to seamlessly forward integrate the group's e-token distribution platforms, for both airtime and electricity, into its proprietary vending machine infrastructure.

By being part of the group, **CES** benefits from significant economies of scale as it directly accesses:

- the standardised segmental price for e-tokens;
- strategic, operational and IT resources; and
- shares operational costs across the segment.

By owning a significant proportion of the footprint through which it vends e-tokens, **CES** has been able to reduce the margin it pays away to the retailer whilst still adding value by attracting footfall into the retail environment.

In addition, **CES** continues to provide end-to-end customer and business specific manufacturing and deployment solutions for the group and its third-party customers, such as the white labelling of self-service vending machines for selected clients.



Telecommunications Distribution



Contribution to group

95,3%

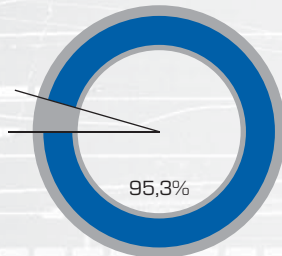
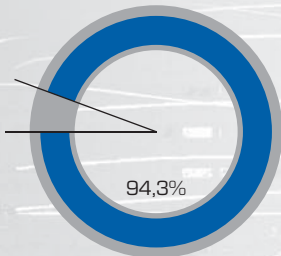


The segments' product development initiatives are focused on increasing the types of e-tokens available to consumers through the group's footprint of touch points. Currently, its combined e-token product suite includes the following products and services:

- Prepaid airtime and starter packs, prepaid electricity and prepaid insurance;
- Loyalty and stored value cards; and
- Bill payments.

Pro forma Revenue

Actual Revenue

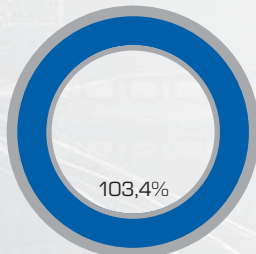
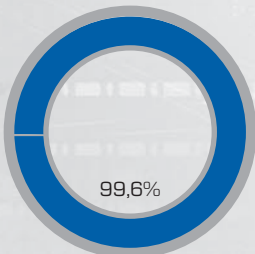


The Prepaid Company (TPC)

Wholesale and retail distributor of virtual and physical prepaid airtime and starter packs. TPC uses proven technology to facilitate the wholesale purchasing, management and delivery of prepaid airtime for its clients, including Ackermans, Metcash, Mr Price, PEP, Pick n Pay and Shoprite and other group subsidiaries.

Pro forma EBITDA

Actual EBITDA



Ventury Group

Ventury is the holding company of Cigicell

Cigicell distributes virtual prepaid airtime and electricity vouchers through a network of POS terminals to BP, Sasol, Shell and a range of independent retailers.

Matragon

Matragon is the holding company of Comm Express Services (CES).

CES distributes virtual and physical e-tokens (as well as starter packs) through a broad network of distribution channels including terminals, vending



machines and software embedded on integrated POS devices, directly to consumers through established retail associations and independent retailers.

Kwikpay SA

Distributes virtual prepaid airtime, electricity vouchers and value-added services through multi-application and managed terminal vending solutions and integrated POS till points for SPAR, FNB, Nedbank and Clicks.

Virtual Voucher

Distributes virtual prepaid airtime through an integrated prepaid voucher management system to over 500 Engen petroleum sites across South Africa.

During the financial year, the group acquired **Crown Cellular**, a wholesale and retail distributor of virtual prepaid airtime servicing the informal market. The group purchased the balance (10%) of Ventury's equity from its minority shareholders. Ventury is now a wholly owned subsidiary.

Performance review

The **Telecommunications Distribution** segment significantly exceeded its financial targets for the financial year. This enhanced performance resulted from strong local demand for prepaid airtime as well as the recent alignment of group subsidiaries with specific strategic goals. This strategic alignment has resulted in organic growth, primarily derived from subsidiary-specific market sector specialisations and performance goals, including the sharing of segmental sales, IT and treasury resources and operational costs.

The creation of market specialisations has improved the segments' overall market penetration whilst also significantly closing market gaps and successfully identifying new market opportunities. The group's robust, scalable and easily deployed distribution and technology solutions have allowed for the rapid but well controlled rollout of additional local proprietary touch points. This has also contributed to growth in the segment wholesale and retail customer base during the review period.



The group's ability to offer its end-users increased access to numerous e-tokens through an ever expanding footprint has provided resellers with greater convenience and availability when accessing products and services offered by the group. This leads to better end-user customer retention and loyalty.

Prospects for 2009

The **Telecommunications Distribution** segment expects to maintain its position as the preferred provider of e-tokens and multi-application distribution solutions to wholesale and retail consumer markets in South Africa. These markets will benefit from the segment's aggressive market penetration strategy that will both enhance end-user access to multiple technology solution offerings and various new e-token offerings. Current channel participants are also expected to benefit from aggressive customer acquisition and retention programmes as well as integrated access to other value added products and services.

Although the segment remains well positioned to seamlessly deploy new and varied non airtime-related prepaid products and services into the group's existing footprint, growing the relative contribution of non airtime-related products and services to overall group revenue and profit remains a key segmental priority for the forthcoming financial year.